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THE TOBACCO TAX.

NEW systems of taxation and the extension of old ones are the invariable accompaniments of great wars. By the Civil War in America an enormous strain was put on a fiscal system that for nearly half a century had been on a peace footing. The tariff was quickly increased, but a disturbed foreign trade proved to be a poor source from which to draw the sinews of war. Early in 1862, Congress entered upon the subject of laying internal taxes, but found itself in dangerous and unknown fields. Such taxes had always been unpopular. They had been a prime cause of the Revolution; and the memory of them gave only a short life to Hamilton's effort for an excise, and even a shorter life to the internal revenue of the war of 1812. Thus there were no guides to the problem, what taxes were best adapted to American conditions of scattered population and aversion to restrictions, or what were most likely to meet public favor.

The internal revenue act of July 1, 1862,* was distinctly a war measure, drafted under the pressure of needs almost overwhelming. Everything was taxed,—raw materials as well as finished products; labor and the tools of labor; the mediums of exchange, the processes of the manufacturer, and the returns of the professional man. In European governments, tobacco was already among the chief sources of revenue, being taxed both in the leaf and in the manufactured forms. Owing, however, to the wide area of its growth in America, the leaf was necessarily exempted from taxation until it reached the market in a manufactured form. Accordingly, in the first internal

* 12 *Statutes at Large*, 432-489.

revenue act, manufacturers and dealers were taxed,* and low rates levied on cigars, chewing and smoking tobacco, and on snuff.†

The internal revenue system then organized was placed in the hands of a Commissioner of Internal Revenue. He was aided in each revenue district by an assessor and a collector, to whom fell the preparation of the tax lists and the collecting of the taxes.‡ Errors of valuation and similar questions came before the assessor; but an appeal to the commissioner at Washington was allowed in important cases. Every person liable under the law was required to deliver to the assessor a detailed statement of the quantity and quality of his taxable property, and to pay the taxes computed from these lists. The regulations of the act applied alike to all articles taxed, and contained no special rules for tobacco. Every tobacco manufacturer paid his license fee, like any other manufacturer. At regular intervals he made returns of the number of pounds of tobacco sold and of its value, and was assessed accordingly. The tax varied with the value, being fifteen cents a pound on tobacco valued at more than thirty cents, and ten cents on that valued at thirty cents or less. The tax, of course, was really present in the total amount of the sales returned.§

It is evident that no price could be placed on tobacco until its removal and sale; and with its removal and sale it usually passed beyond the reach of the officers who were to verify and detect its value. Thus a way was opened

* See § 64, clauses 29, 16, of the internal revenue act of 1862. Manufacturers of tobacco and cigars were not distinguished from other manufacturers.

† *Ibid.*, § 75.

‡ All subordinates were at this time appointed by the commissioner; but this right in recent years has been claimed, and at times exercised by the Secretary of the Treasury, with whom it technically rests.

§ If the ledger of the manufacturer showed a sale of one hundred pounds of tobacco for \$50, it is plain that the real price of the tobacco was 35 cents per pound, the remaining 15 cents being the tax which he expected, if honest, to pay to the government.

for fraud and undervaluation. As the practice of branding was not yet in use, there was no evidence upon a package that it had or had not been properly taxed. The inevitable result was that great quantities escaped taxation entirely, especially through a practice of removing goods from the district where they were made to another where they were treated as if the tax had been paid. This was the simplest way open to those who wished to avoid paying the tax; while even to the honest manufacturers and honest assessors the mixed specific and ad valorem rates were difficult to determine.

In his report for 1863, the commissioner represented that a larger tax on tobacco would be cheerfully borne,* and could be collected easily, without diminishing the production; and he accordingly recommended a tax on tobacco in the leaf, believing that, with proper regulations for inspection, it would tend to defeat fraudulent practices. This proposal recurred in several succeeding reports, and was based on the ease with which a corresponding hop tax was levied in England. It never met the approval of Congress, and was dropped when other means of checking fraud were adopted.

The proceeds of the tobacco tax were three millions and eight millions for the years 1863 and 1864 respectively. "Even that result," said the commissioner in his report of December, 1864, "did not represent the power of the then existing laws to produce revenue":—

A system of national taxation so complicated in its details, and so unwieldy in its proportions, could not be made immediately productive throughout a continent. . . . [But now] the officers have become more expert, the taxes more strictly assessed, and the flow of revenue has steadily increased.

While the commissioner was still busy organizing his forces, Congress early in 1863 took occasion to amend the

* England at this time (1863) was taxing tobacco in the leaf at 77 cents per pound, snuff at \$1.54, and manufactured tobacco at \$2.33 per pound.

earlier act.* One change was the substitution of a specific tax of fifteen cents per pound for the earlier mixed rate on manufactured tobacco. But more important, in some respects, was the power given to the commissioner to appoint inspectors of tobacco whenever needed. This was the first step towards a separate organization of the machinery and methods for collecting the tax. The inspector branded each package of tobacco, snuff, or cigars with the quality and weight, together with his own name and the date; and this expedient served to remedy the most glaring evils of the moment. The inspector's salary was paid by fees from manufacturers,—a practice continued until the office was abolished in 1886.†

The great financial burdens of the closing year of the war led to the second important act of this first period,—the internal revenue act of June 30, 1864.‡ This act attempted to double the returns from tobacco by doubling, in some cases tripling, the tax on it. Cigarettes were for the first time added to the tax list; but, in other respects, the classification remained unaltered. The act elaborated the machinery of collection, and added to it the new rule that the tax on tobacco and cigars should be collected in the district and place of manufacture. It was required that every manufacturer of tobacco, snuff, and cigars should furnish to the assessor, immediately, a sworn statement of the street and number of his factory, and of the proposed market for the product, and a general description of the kind and quality. On receipt of this, the assessor issued a "permit" in addition to the regular "license." In addition to this report, every manufacturer was compelled, on the first day of the year, to send in an

* March 3, 1863, 12 *Statutes at Large*, 717.

† The number of inspectors varied. In 1868 there were 200. *Congressional Globe*, July 15, 1868 (p. 4089).

‡ 13 *Statutes at Large*, 218.

inventory of his tobacco, snuff, cigars, tin-foil, licorice, and stems, stating what part he had made and what part he had bought from others. From the moment of taking the inventory he must keep an accurate account of all purchases and sales of these articles, and send to the assessor on every Wednesday a true copy of the entries, whereupon he was assessed according to the returns he had made, and was required to pay his tax to the collector within five days.*

Even these regulations were not thought sufficient. At the end of every month, the manufacturer must sign a declaration that no taxable form of tobacco had been removed from his factory other than that duly returned and assessed. And, still further to increase his responsibility, it was provided by amendment that he should give heavy bonds for every machine and for every workman in his employ.†

Still other checks were devised in this act of 1864. Makers of tin-foil also were to render statements, on demand, of the quantity of their product sold to tobacco and cigar manufacturers. Inspectors were given the right to enter the premises of tobacco factories, and besides were to attach a stamp indicating inspection, in such a way that it should be broken when the package was opened.‡ Together with these restrictive regulations, so necessary in dealing with a highly taxed commodity, the privilege of bonded warehouses was extended to the manufacturer of tobacco. Thus he could delay paying his tax until he withdrew his goods for sale. If sold for export, no tax was required.

Such were the provisions of the act of 1864. They were slightly modified by amendments in the three suc-

*This was amended later by requiring the payment once a month.

† 14 *Statutes at Large*, 98, July 13, 1866.

‡ The stamps used were the ordinary adhesive stamps, already widely in use in the internal revenue.

ceeding years. Thus the inspector was to examine imported as well as domestic goods, and later was given power to question a manufacturer under oath in any case of suspected false valuation.* But no important changes were made.

The act seemed at the time strong enough to hold tobacco manufacturers strictly to their duty. But the increase in revenue from year to year was hardly more than that naturally to be expected under the old rates,—certainly in no proportion to the doubling of the rates.† This was in part due to the frequent changes in the tax, and the consequent great irregularity in the quantities manufactured. Whenever discussion pointed to a probable advance in the tax, manufacturers became correspondingly active in their efforts to make up a large stock under the existing rates. Consequently, the tobacco market and the revenues from tobacco could hardly reach a normal condition within a year after any new act went into effect. So frequently were these earlier rates modified or raised that it is impossible to form an opinion of their true worth as revenue-producing means.

A curious conflict arose under the act of 1864 in assessing the taxes on cigars. The act specified that cigars valued by the maker at less than \$5 per thousand should pay \$3 tax; if valued between \$5 and \$15, the tax should be \$8. It will be recalled that the sales value returned by the maker to the assessor was the only basis on which to

* 13 *Statutes at Large*, 469 (March 3, 1865); 14 *ibid.*, 98, July 13, 1866.

† The receipts from tobacco, cigars, and snuff were

In the fiscal year 1863, ...	3	millions.
1864, ...	8.5	"
1865, ...	11.4	"
1866, ...	16.5	"
1867, ...	19	"
1868, ...	18.7	"

The full effect of the act of July 30, 1864, was not seen in the year 1864-65.

For statistics relating to the revenue from tobacco, see the Appendix to this issue.

reckon the value of the cigars, and the selling price of necessity included the tax. If now a man returned a sale of a thousand cigars at \$12 per thousand, what tax should he pay? If \$8, then the actual value of the cigars was \$4; but cigars valued below \$5 were taxed at only \$3. If he paid the tax of \$3, then the actual value of the cigars was \$9; but the law taxed cigars valued between \$5 and \$15 at \$8 per thousand.* Plainly, there had been an error in framing the schedule of rates, in leaving too great a gap between the lowest tax and the next higher; for the reasoning applied to the example cited was true of any sale of cigars at rates between \$8 and \$13 per thousand. Since Congress took no action when attention was called to the difficulty, it was left to the commissioner for two years to levy such a tax as could be agreed upon with the manufacturers.†

With the amendments and minor acts of 1865, 1866, and 1867, the end was reached of the first and what may rightly be called the experimental stage of the effort to make tobacco contribute to the support of government. By the end of the fiscal year 1868 it had yielded a total of seventy-eight millions. Its importance was growing, and it stood second only to distilled spirits as the largest single source of internal revenue.

The more noticeable features of these first six years were: first, the few objects that were taxed; second, the combination of specific and ad valorem tax; and, third, the rapid growth of a series of strict rules in regard to the manufacture of tobacco and cigars, apart from the more general laws which touched nearly all industries.

The first of these points is made plain by the fact that only four separate items appear in the detailed reports down to 1868,—cigars, snuff, manufactured tobacco, and

* *Report of the Commissioner of Internal Revenue*, December, 1864.

† This anomaly was remedied by the act of July 13, 1866, 14 *Statutes at Large*, 98.

the tax on dealers in manufactured tobacco. Of these four sources, cigars and manufactured tobacco yielded seventy-six millions out of the total of seventy-eight millions. Nearly this proportion has been maintained to the present time, although since 1868 ten new phases * of the trade have been placed under contribution. The reasons for this can be briefly stated. In spite of the small scale on which the bulk of the tobacco was manufactured, cigar and tobacco factories had a permanence not found in dealers in leaf, in peddlers, or in other retail dealers. This was well illustrated by the tax on retail dealers in manufactured tobacco, which even in the most successful years, 1867 and 1868, indicated the existence of no more than three or four thousand such in the United States. Besides, the comparative ease of inspecting factories enabled the government to watch the products, and made more certain that tobacco or cigars, once within its cognizance, could not escape taxation.†

Second, the combined specific and ad valorem rate was early found too cumbersome for manufactured tobacco, and was done away with as early as March, 1863; but it clung to cigars until 1868. There is always present in such a system the temptation to undervalue goods, so as to bring them into a class less heavily taxed; and the difficulty in this case amounted to a serious disease.

Third and last, the rapid growth of the tobacco tax as a separate branch of revenue, and the prominence it speedily attained, were perhaps the most important features of the period. Nevertheless, the returns for the first few years were disappointing. Direct fraud and evasion do not seem to have been so much to blame as the inertia of so great a system. The rates under the first act were low, were slightly increased in 1863, more than doubled

* Pedlers, dealers in leaf, large and small, wholesale and retail, and all the manufactures of tobacco not otherwise specified.

† *Report of the Commissioner of Internal Revenue*, November, 1886.

in 1864, and retained at nearly that point until 1868. With the increase in the rates the dangers from fraud increased in greater proportion,—a fact to which the restrictive laws bear sufficient witness.

In his report of 1868,* Mr. Wells dwelt at some length upon the various methods of dishonest manufacturers. The chief mode of defrauding the revenue was from the connivance or incompetency of officials. When honesty was lacking, the check of inspection was worthless. Another evil was the use of counterfeit inspection brands, or of brands belonging to inspectors no longer in the service, which was complicated by the fact that each inspector furnished his own die, with whatever design he preferred. Other forms of fraud were the use for a second time of inspected packages; for example, the removal of smoking tobacco from an inspected package, and the substitution of chewing tobacco, which in the course of time had come to be taxed at a higher rate. A more brazen method of avoiding the tax grew out of the long credit (sixty days) which could then be had from the government. A factory equipped with old machines would be started, the proprietor selling his product as fast as made, all properly branded by the inspector. Just before the sixty days' limit was reached, the proprietor quietly slipped away, leaving to the government a valueless plant and a more or less valuable bond, in return for tax credits to the amount of perhaps \$25,000.

Under the act of 1864 it can safely be said that the twenty millions of yearly revenue did not represent more than half the amount really due to the government. Mr. Wells stated that "the books of some of the largest manufacturers in this country show that their aggregate sales of smoking tobacco for the whole of the last year have not been in excess of the average of sales which, before the imposition of the tax, were effected in a single week."

* *Report of the Special Commissioner of Revenue, January, 1868, pp. 35-38.*

Mr. Wells further thought that the cause of the trouble lay in the method of appointing inspectors; but it is doubtful if any amount of strictness could have made the system effective so long as the goods, when they reached the consumer, did not bear about them the evidence of a tax paid. The fault evidently was in the system; for at that time in France tobacco was taxed much higher without affecting its use, while England was deriving a revenue of thirty-five millions from a total use of less than forty million pounds. Meanwhile, the United States was getting a revenue of but nineteen millions from sixty million pounds. With these facts in view, it was obvious that a much larger revenue could be collected by the government; but the method was a matter of doubt. The discovery of great frauds, and especially the unearthing of the "Tobacco Ring," brought matters to a crisis.*

The tobacco manufacturers themselves were the first to move for reform. In a convention held at Cleveland, Ohio, in September, 1867, they framed some seventeen "proposed laws," which were sent to Mr. Wells, and by him submitted to Congress. This draft was important, for it contained the changes which afterwards formed the main features of the new system. It was proposed that tobacco be put up in packages of fixed weight; that factories be numbered; and, most important of all, that the taxes should be collected by stamps, and that all tobacco found on the market without proper stamps should be liable to seizure by the government. These proposals are the origin of the tobacco sections of the act of July 20, 1868, for imposing taxes on distilled spirits and tobacco.† Congress was disposed to try the stamp system,

* This ring seems to have been strong, especially in the Western centres of tobacco manufacture, St. Louis and Cincinnati. See the *Cincinnati Gazette*, November 3, 1868.

† 15 *Statutes at Large*, 125.

and enacted the bill practically in the form submitted by Mr. Wells and the manufacturers.*

By the provisions of the new act all taxes became specific, and the rates were slightly lowered. The higher rate on chewing than on smoking tobacco—a distinction begun in 1864—was unfortunately retained, and proved a cause of further mischief.† Dealers in leaf, retail dealers in cigars and tobacco, and cigar-makers (including workmen) were added to the tax list. This was an essential link in the new system, for tobacco stamps were sold only to those who had filed the required bonds and had paid the special tax. The stamps were sold by the collector, and were attached by the inspector at the place of manufacture. So strictly was this rule construed that it was held to be broken when cigars were removed unstamped from the back part of a room where they were made to the front part where they were sold. The absence of the stamp from a package was proof that the tax had not been paid. Thus the illicit manufacturer was attacked both in front and rear. He could not get the stamps, and his goods were confiscated in the market for lack of them. The collector kept a record of the purchasers of stamps;

*The tobacco schedule was passed, with little discussion, in the form in which it came from the Committee of Ways and Means. Before the committee there had been a fierce struggle between the Eastern and Western manufacturers. The Eastern men wanted chewing tobacco to be packed in parcels of one pound or less: the Western wanted large packages, because they used wooden boxes instead of tin-foil, the production of which was monopolized by certain New York firms. See the *Congressional Globe*, 1867-68, pp. 3495-3499. The committee, naturally, reported in favor of a compromise system. The contest was renewed in the House, where it gave rise to a lively tilt between Messrs. Garfield and Logan.

†The rates of the act of 1868 were as follows: snuff, 32 cents per pound; chewing tobacco, 32 cents per pound; smoking tobacco, 16 cents per pound; cigars, \$5 per thousand.

Smoking and chewing tobacco (fine cut) were made from the same tobacco by the same processes, except that chewing was sweetened. Though identical in all but one particular, and that not a prominent one, chewing tobacco was taxed at double the rate of the other. This opened an easy road to fraud, which was not closed until the two were combined at the same rate (20 cents) by an act of June 6, 1872.

and the manufacturer, on his part, still made his monthly report and annual inventory. This double check held both manufacturer and official closely to duty, for a discrepancy anywhere would be quickly revealed; while the public evidence of the stamp forbade evasion.

It was at this time, too, that the familiar legend was first attached to packages of tobacco and cigars,—“Notice! the manufacturer of this tobacco has complied with all requirements of law. Every person is cautioned under penalties of law not to use this package for tobacco again.” Factories were numbered; and, as a necessary condition for the success of the stamp system, tobacco and snuff were to be packed in packages of fixed weight, and cigars in boxes containing the numbers determined by law. Imported goods were to conform to the same rules, but were provided with a separate stamp.*

Such were the important changes made by the act of 1868. Their effect upon the revenue was immediate. The receipts for 1870 were 31.3 millions against 18.7 millions in 1868,—a gain of nearly 80 per cent. in spite of the reduction in the rates. As cigars showed a much greater increase (95 per cent.) than any other item, it may naturally be inferred that a greater proportion of them had previously escaped taxation. No better indication could be formed of the greater efficiency of the stamp system or of the amount of evasion in the years just before 1868.

The new system seemed to reach nearly its full effect in the first complete year of its trial; for the changes in the returns from it after 1870 were merely the results of natural growth and of the fluctuations of general trade.

* Cigar-makers find it a cause for complaint that in the case of cigars alone the government volunteers the information to the consumer that the article is actually imported. No other form of merchandise is so guaranteed. See the complaints in the *Tariff Commission Report* of 1882, p. 1944. It is a violation of law to use these stamps on domestic cigars.

The steady and uniform increase [said the commissioner in 1871]* in the revenues derived from tobacco, cigars, etc., since the present law went into effect, by which the mode of collection was changed from an assessment after removal from the factory and sale, to a prepayment by means of suitable stamps, has fully demonstrated the superiority of this system. Fewer frauds are possible where the taxes are required to be paid at the manufactory and before the goods are allowed to go upon the market, and where every package is required to bear upon it the evidence that the tax has been paid.

With the exception of some slight frauds through counterfeiting the stamps,† the measure passed quietly into operation, to the benefit of the government and of the honest manufacturers and dealers. Peaceful as was the installation of the stamp system, it wrought a revolution. Instead of being harsh and inquisitorial in execution, it was equitable, and even popular. Above all, it transferred the burden of proof from the department to the manufacturers. In fact, the Internal Revenue Office became merely a medium for supplying that which enabled the manufacturers to meet the keen scrutiny of the purchasing public,—a police force far more effective and exacting than any government could hope to be.

Meantime, the increasing resources of the government pointed to a reduction in the excessive taxation that then prevailed both in the customs and in the internal revenue. Naturally enough, the branches of the internal revenue were lopped off first; for there was no one interested in their preservation. From a tax on almost everything, the internal revenue system was quickly narrowed down to an excise on whiskey, beer, and tobacco, which, from the first, formed the backbone of this part of the fiscal system. With the decrease in the needs of the service, there came a corresponding change in its organization. As early as 1872 the office of assessor was abolished, his functions

* *Report of Commissioner of Internal Revenue*, November, 1871.

† In 1872 the designs were made more intricate, and were printed in two colors.

being transferred to the commissioner at Washington, who thenceforth assessed such taxes as were not paid by stamps. The saving in salaries was an important item; but more beneficial was the direct contact of the department with the manufacturers and dealers, together with an increased celerity in the despatch of business.

There were, however, some dangers attending the use of the final and absolute power which the act placed in the hands of the Commissioner of Internal Revenue. His position certainly was strong, for the act expressly provided that no suit could be begun in the courts to hinder the collection of a tax once assessed. An appeal might be made to the courts for an abatement, and illegal taxes might be recovered from the collector. But, when disputed cases reached the commissioner, his decision was held to be in the nature of an award, which could be impeached only for fraud or want of jurisdiction, not for lack of discretion or judgment. Hence, his decision was practically final. There was, and still is, a justification of such autocratic power in the fact that without it the government would be hampered at every turn by legal delays, until the case would finally wear itself out in the courts.

Centralization in taxation insures uniformity of methods and equality of rates,—two objects of the utmost value at all times. The change to the stamp system in 1868 involved a change from a method almost local in its leading features to that of a highly centralized administration. The logical outcome of this movement was the removal of the assessors, who embodied the old local principle, and the increased importance of the collectors. But the collector retained none of the discretionary power that had rested with the assessor. The stamps, printed by the government, were furnished to the collector, who in turn sold them to such manufacturers and importers as had given the required bonds. The proceeds

of the sales were covered into the Treasury at regular intervals. Thus was completed the simple machinery of an effective, straightforward tax. This branch of the Internal Revenue Office was no longer a huge police force, but a stamp agency.

From the point of view of a government, the greatest desideratum in any system of taxation is the certainty of a calculable return. To this may be added the power to increase or decrease that return, within reasonable limits, by an increase or decrease in the rate of the tax. How closely the tobacco tax has conformed to this ideal, a brief survey of its working since 1868 will show.

The decade following the changes of 1868 is the most interesting in the history of this tax, both as testing the stamp system and also, in a larger sense, the general value of the tax as a source of revenue. As already noted, the revenue from tobacco increased at an unprecedented rate with the adoption of the stamp system, reaching thirty-one millions for 1870, the first full year of its operation. This amount may fairly be taken as the normal revenue from the rates then in force. Almost all evidence of fraud had disappeared, and the system met general approval. Under these favorable circumstances, the revenue from tobacco increased steadily, in spite of the financial stress of the years immediately following 1870. The customs revenue, on the other hand, fell rapidly from 216 millions in 1872 to 163 millions in 1874. Congress attempted to check the decline by raising the import duties (1875); but the revenue kept its downward course until, in 1878, only 130 millions were raised by the tariff. The tobacco tax showed a striking contrast with this. In 1874 it yielded thirty-three millions to the Treasury, a gain of two millions over 1870. Its rates, increased twenty per cent. at the time of the tariff changes of 1875, quickly brought the returns from

tobacco to forty millions in 1876, and maintained them there, while a decreasing foreign trade was cutting down the customs revenue. With the government pledged to resume specie payments, the revenue from customs stood at the lowest notch since 1860; and even alcoholic and malt liquors fell below their usual level of productiveness. At this really critical time, the single item of tobacco yielded nearly one-third as much as the customs, and somewhat more than one-sixth of the total revenue received by the government. It is easy, of course, by selecting some one branch of a government's resources, to exaggerate its importance. Still, the working of the tobacco tax from 1872 to 1878 brings out strikingly what is true of it for the whole period since the war,—that the revenue from tobacco is a constant and growing quantity, little affected by the fluctuations of trade, which have such a marked influence on most other sources of income, and that, within reasonable limits, a considerable increase of revenue can easily be obtained by an increase in rates.

With 1879 there came a marked revival in trade, a precursor of the prosperity of 1880–81; and the turn in the tide suggested a reduction in taxation. Congress determined to reduce the internal revenue rates, the tobacco rates included. A strong minority was bent on radical measures. The proposals ranged from the rate finally adopted all the way to the abolition of the internal revenue system on the ground that it was a “war measure.”

In his report of November, 1878, the commissioner, General Raum, endeavored to anticipate Congressional action by pleading for the existing rates, and showing that a reduction meant a corresponding loss of revenue without benefiting consumers; for the tax reached them so thoroughly subdivided that the relief would be inappreciable. The debate was long drawn out, with the result that by the act of 1879 manufactured tobacco and

snuff were taxed 16 cents per pound instead of 24 cents, while the rate on cigars and cigarettes remained unaltered. This measure, however, proved to be of only temporary importance. Prosperity brought with it larger revenues from every source than the government could well use, and greater changes became necessary.

The tariff and internal revenue act of 1883,* framed ostensibly to correct and reduce the tariff rates, and incidentally to revise what little was left of the internal revenue system, provided tersely in its first paragraph that manufactured tobacco and snuff should pay eight cents per pound, and cigars three dollars per thousand,—exactly one-half the previous rates. The license fees of dealers and manufacturers were reduced in nearly the same proportion.† Farmers were permitted to sell small quantities of the leaf direct to consumers, and other restrictions were softened. The result of all these changes could have been foretold from the previous experiences. The revenue from tobacco fell from forty-seven millions in 1882 to twenty-six millions in 1884, while the increased amount reached by taxation (about fifteen million pounds) exceeded but little the regular annual growth. As a sacrifice of revenue, the measure was successful. As a relief from the so-called burdens of taxation, it was of doubtful effect; for the lower tax has caused no increase in use beyond the normal rate, which certainly is progressive enough to satisfy the advocates of the poor man's pipe.

The years since 1883 have been uneventful, so far as

* 22 *Statutes at Large*, 488.

The rates fixed were : —

For dealers in leaf tobacco, ...	\$12.00
Dealers in manufactured tobacco, ...	2.40
All manufacturers of tobacco, ...	6.00
Pedlers of tobacco, ...	3.60 @ 30.
Retail dealers in leaf tobacco, \$250, and 30 cents for every dollar in excess of \$500 annual sales.	

the government and the internal revenue have been concerned. The tobacco tax began in 1884, at the new starting-point fixed by the average rate of ten cents per pound;* and the revenue increased by regular steps from twenty-six millions for 1884 to thirty-two millions for 1889. The tax cannot be said to be oppressive; for it has not roused determined opposition, and evasions have been rare. Nevertheless, year after year bills have been introduced in Congress by members from tobacco-growing districts for the abolition of the tax, partly from the feeling that it is a burden on the grower; partly on the ground that this industry should not be taxed, while all others, except liquor, have been freed from internal taxation; but in great part from the promptings of practical politics, and the desire to exhibit proper solicitude for the poor man's only joy.

The McKinley Act contributes nothing new or interesting to this part of the discussion. The opposition to the tax, so far as it existed, was for the abolition of it. On the other hand, the supporters of the tax were content with the rates of 1883; and those rates were low enough to make their retention or the entire abolition of the tax appear to be the natural alternatives. Congress preferred, however, to adopt a middle course, and to reduce the rates on all kinds except cigars† by one-fourth (from eight cents to six cents per pound), and to abolish all special and license taxes. This last change was, however, a step in the right direction. When the stamp system was adopted, it did not require for its success the rigid surveillance of every factory and shop. Yet the special taxes had no other object than to give the government oppor-

*Cigars taxed at \$3 per thousand represent a tax of 12 cents to 14 cents per pound on the tobacco used.

† Cigars and cigarettes are retained at the present rate. The changes take place January 1, 1891.

tunity to secure information.* With the assured success of the stamp system in 1872, the office of the assessor went by the board. Whether the licenses and special taxes should have shared the same fate earlier may be a question for debate; but, at all events, as one of the relics of the older system, they can be spared now.

The relation of the tobacco-grower to the tax will be discussed presently. But it may be noted here that the government exercises no supervision over him. He plants and cures as much tobacco as he pleases. He may keep what he pleases for his own use, and may supply it to his employees. He sells his crop without let or hindrance in what is practically a free market; for, until recent years, far more than half the total product of leaf tobacco was sold to foreign buyers, who competed not only with the home buyers, but with each other. It seems obvious, then, that the prices obtained for this exported surplus must largely govern the domestic market in those particular grades, without regard to the national government or the internal revenue laws. Consequently, the tax is not important in determining the market price of the leaf. But, even if it were, the rapidly increasing use of tobacco would indicate an industry not appreciably injured by the tax.

The increase in the consumption of tobacco, not only in the United States, but throughout the world, has been one of the striking phenomena of recent years. In England the growth in the use has been slower than here, but still very marked, the increase during the sixty years, 1821–1881, being from $\frac{3}{4}$ of a pound to $1\frac{1}{2}$ pounds per person. In the United States the quantity used has increased rapidly from $3\frac{1}{3}$ pounds per head in 1870 to $3\frac{3}{4}$ pounds in 1880 and to $4\frac{1}{2}$ pounds in 1889.† In short, the use of

* The revenue from all [the special taxes,—manufacturers, dealers of all kinds, and pedlers,—for the whole period (1863–1889), has been only 35.2 millions out of a total revenue from tobacco of 810 millions.

† Mr. Wells, in his *Recent Economic Changes*, p. 338, has reached prac-

tobacco has far outstripped the growth of population, rapid as that has been, and is now gaining at a greater rate than ever. In this fact lies the great strength of the tax. It has never been high enough to check the increase in use, so that, if left alone, even at the low rates fixed by the recent law, it must remain one of the important sources of revenue. There is the further consideration that the government might better be supported from the luxuries than from the necessities of the people. But, in deference to the recent political opinion that tobacco is as necessary to life as bread and meat, this argument may be passed with the suggestion that, if twenty-five pounds of tobacco a year is necessary to a man's existence, the point must soon be reached beyond which tobacco will be a luxury.

It is held by some that the tobacco tax, as an indirect tax, requires of dealers and manufacturers an increased outlay, for which they must recoup themselves by a selling price increased by enough more than the tax to meet the additional risk and interest. Obviously, however, the amount of this insurance (if it may be so called) varies greatly with the nature of the commodity, the time necessary to insure its sale, and the number of hands it passes through to reach its market. But tobacco, unlike most other commodities, deteriorates rapidly in quality the longer it is kept in a manufactured state. Manufacturers of tobacco and cigars are therefore in close touch with the demands of their market, carrying over stocks from

tically the same result, but divides the total use as follows. The figures for 1868 are probably too low.

1868.	1.3	pounds	manf.	tobacco,	16.7	cigars	per	person.
1878.	2.3	"	"	"	40.5	"	3.5	cigarettes per person.
1888.	3.23	"	"	"	61.4	"	29.7	" " " "

It may be presumed that not more than one person in five of the population uses tobacco. Thus the quantity consumed by the actual users is something startling, being not far from 25 pounds of manufactured tobacco to each user. This quantity represents 32 pounds of leaf, since the loss in manufacturing is not far from one-fifth.

year to year only at a considerable loss. Thus, from the very nature of the article, the time from the payment of the tax to the refunding of it by the consumer is reduced to a minimum, and with it that extra amount, the so-called insurance, is reduced to the lowest point. Consequently, the objection that the tax takes more from the consumer than reaches the government may be set aside in this instance as without weight.

That the tobacco tax has fostered monopolies is a more serious objection, and one that carries seeming truth upon its face. In the days before the war, the cigar industry was largely carried on in tenement-houses,—a system broken up by the severe regulations in force before 1868. To that extent the tobacco tax may have brought hardship, hurrying in a few years before its time the more effective organization of labor. But it is by no means clear that the tobacco tax can be held responsible for the growth of the factory system. The tendency in that direction has marked every industry the world over. Government supervision, if it has had any effect whatever, seems to have favored the growth of the smaller establishments. According to the census of 1860 there were 1,478 cigar factories in the country. This number had increased to 15,992 in 1878, and to 22,055 in 1889. Of the cigar factories in 1878 (15,992), as many as 12,551 employed fewer than six hands in each. The business of cigar manufacturing, then, is carried on in small establishments, the number of which is rapidly increasing. Yet the product of cigar factories has been taxed higher than other forms of tobacco. Every individual worker was for years taxed by a special license fee; and the proprietors to this day are tax-bonded, and specially restricted by rules and regulations. But cigar factories are more numerous than ever, and the business of making and selling cigars most thoroughly divided. With tobacco factories the case has been quite different. Machinery

plays so large a part in the processes that the number of factories cannot be increased or decreased at will,—a state of affairs that tends, apart from any question of tax, to draw new business to the factories already established. Curiously enough, the number of tobacco factories, greatest when the tax happened to be the highest (1875–1880), has really declined under the low-tax *régime* of recent years.* With a use of chewing and smoking tobacco twice as great as that of any year before 1880, with a tax rate one quarter of what then prevailed, we now have absolutely fewer factories in operation than at any time since the war.

The tobacco tax from the grower's point of view, already briefly referred to, involves some consideration of the nature of the industry, the amount and character of the exports and imports, and the working of the internal taxes and the import duties. A sufficient discussion of this part of the subject need not carry us far afield, and at the same time will bring to light some interesting facts.

The growing crop of tobacco requires nine months of constant attention and labor, every moment of which is full of uncertainties. Aside from the frost, the worms, and the weather, which affect both quality and quantity, the leaf at last reaches the market to find its worst foe in itself,—overproduction. Unfortunately, the conditions of growth favor a chronic state of overproduction, or, at least, of poor adjustment to the demand. This is principally due to the large yield of tobacco per acre (600 to 1,000 pounds), and to the comparative ease with which the area planted can be increased. The acreage, and with it the crop, might be doubled a good many times without

* In 1875 there were 983 tobacco factories.

1879	"	"	1094	"	"
1882	"	"	847	"	"
1885	"	"	926	"	"
1889	"	"	914	"	"

reaching any natural limit, provided only the market price offered some encouragement. Nor is there anything about the common grades of the leaf to prevent them from being grown in almost any part of the country. The enormous annual crop of the United States, 600 million pounds, requires the small area of 1,500 square miles. The large profits of occasional years draw farmers into the business, and induce old growers to increase their acreage; yet an increase of one acre each among the thousands of tobacco-growers is often enough to carry the total product far beyond any hope of profit.* Growers have sought to regulate the amount of the product, abstaining, "by mutual understanding," from planting the usual area; but increasing competition, especially from the new fields of the West, has usually prevented much increase in price. Thus, on the one hand, growers contend with conditions of unlimited production, and, on the other, with limited though increasing consumption. From repeated discouragement and failure in reconciling two such conflicting tendencies, they have turned against the tax as the prime cause of all their losses, seeing in its abolition their relief and profit. Relief can come only through an increased demand for tobacco. That demand has not developed in the measure required in the years since 1883, when one-half the tax was removed. Is it likely to follow the removal of the other half?†

The most noticeable feature of the tobacco market is the enormous export trade in qualities fit for making smoking and chewing tobacco and strong cigars.‡ Until

* Tobacco loses weight rapidly, and also is less easily worked when old. For that reason leaf from a previous season is less valuable.

† The price of exported leaf since 1883 has been the lowest in our history, except in the years 1879 and 1880. This presumably indicates really low prices at home, but may be due to the export of cheaper grades. Averages of local prices are not easy to get, and are unsatisfactory.

‡ The bulk of the exported leaf comes from the cheap tobacco of the Southern and Western States.

1880 much more leaf tobacco was exported than was used at home. But that trade has not increased so rapidly as the home use, and consequently it is now of secondary though of great importance. It continues in great volume, not because the countries of Europe cannot raise tobacco, but because the manufacture is a public monopoly in several of them, and its cultivation is forbidden, or else permitted only under close supervision.* France, Austria, Italy, and Spain conduct the purchase, manufacture, and wholesale delivery of tobacco, securing thereby a greater revenue than ordinary methods of taxation would yield. Our exports to England, twice what they are to France, are met by an import duty, while the cultivation of tobacco is forbidden by a tax of £1,600 per acre.† It is curious to find Spain using so much of our crop, when she has access to the choicest growths of Cuba and the Philippine Islands. The Netherlands,—whence come the four million pounds of Sumatra tobacco‡ that are supposed to wreck the domestic market, and that certainly disturb the halls of Congress,—the Netherlands retaliate by taking nearly twenty million pounds of our annual crop.

Our imports of tobacco, never large, have been entirely of grades suitable for the finest cigars. Our area of production of the fine grade is limited to small portions of Connecticut and Pennsylvania, and our domestic supply of satisfactory quality has never been large enough.

* In 1887, we exported to Germany 71 million pounds; to England, 63 million pounds; to Italy, 32 million pounds; to France, 31 million pounds; to Spain, 30 million pounds; to the Netherlands, 19 million pounds; to Belgium, 16 million pounds.

† England derived £9,294,990 in 1886 from an estimated use of 55 million pounds. This comes almost entirely from the customs, as the excise is merely for administrative purposes. Beginning with 1886, experimental patches of tobacco have been permitted, looking to its introduction with the hope of relieving the agricultural depression.

‡ The Dutch government sells by auction, at stated intervals, the Sumatra and other tobaccos which it receives from its East Indian possessions. Amsterdam is the market of all of them.

Until 1880 the imports came from Cuba, and, as the relic of an older and larger trade, had not roused serious opposition.* With 1880, Sumatra tobacco entered the market as a new and disturbing element, imports of which quickly rose to four million pounds, where they have since remained.

This interchange of tobacco between different countries, which repeats itself between our own States, is due to differences in the quality and adaptability of the local growths. Particular grades of tobacco are fit only for particular purposes. Thus the heavier and stronger tobacco of Virginia, Carolina, and the States to the west, is famous for its smoking and chewing qualities. Virginia tobacco also possesses the qualities prized in the best snuff. The so-called "Havana seed leaf" of Connecticut, Pennsylvania, and Ohio, supplies the best material for domestic cigars. In this way, the various States share the home trade; but the lines are not sharply drawn, for each encroaches on the other's field.†

Cigars may be grouped for convenience as of cheap, medium, and fine quality. Into the first of these grades the poorest of native tobacco finds its way,—such as comes from many Southern and Western States. For the medium grade the "seed leaf" is used, with a wrapper of the same from Pennsylvania or Connecticut; ‡ or, in the

*The imports were from 10 to 12 million pounds annually; and before 1860 the imports of leaf were much larger, and that of cigars more than double the present quantity. The high duty on cigars resulted in the transfer of Spanish workmen to American soil. The city of Key West and the Spanish colony in New York City are examples in point.

†It may be noted here that tobacco from Cuba and the islands of the Pacific may roughly be classed as most suitable for cigars, owing to its delicate flavor and quick burning. This grade is successfully grown in America and Europe from imported seed, disproving the still prevalent notion that Cuban fields possess peculiar virtues; but American growers are unwilling to devote the care and time necessary to produce the best results.

‡There are usually present on all plants grown for cigar tobacco some leaves suitable for "wrappers"; but most are good only for "binders" and "fillers." The refuse from the sorting and the trimmings from cigars is

better ones of this grade, a mixture of native and Havana leaf is wrapped in a Cuban or Sumatran cover. In the fine grade of cigars, however, almost pure Havana and Sumatra is used, with which only the finest grades of domestic leaf compete.*

It is evident, then, that the tariff can be of no direct benefit to the growers of the lower grades of cigar tobacco; for neither Havana nor Sumatra competes with them.† But to the growers of the medium and fine grades of domestic leaf the tariff undoubtedly gives an advantage, limiting to some extent the profitable use of the imported leaf. Nevertheless, the Sumatra tobacco has qualities which, apart from the price, commend it to the fancy and favor of consumers,—especially its rich color and silky texture. At the same time, the manufacturers like to use it because of its better appearance, the ease with which it is worked, and the fact that a given weight covers twice as many cigars as the home-grown leaf,—advantages that easily explain its higher price.‡ On the whole, from the data at hand, we may say that nearly eight million pounds of American wrappers are displaced by it; and to that extent the American grower may feel aggrieved. In a matter so largely of fancy, it remains to be seen to what

worked into smoking tobacco. Some Western States—notably Wisconsin—are producing excellent qualities of cigar tobacco. The competition from that quarter is rapidly increasing.

*We import 10 million pounds of Havana tobacco annually. This would make 400 million cigars. In addition, we import annually about 35 million cigars, giving a total consumption of 435 million cigars of Cuban origin,—about ten per cent. of the number made in the United States (4,000 million).

† The average price of the tobacco used in cheap cigars is not far from 15 cents per pound. Sumatra tobacco in Amsterdam is worth about \$1 per pound. The duty on it is now \$2 per pound; and, as nearly five pounds of wrapper is the usual quantity for a thousand cigars, the increase of duty from 75 cents to \$2 per pound is equivalent to about \$6.25 per thousand. The duty on tobacco for fillers and binders remains at the former rate, 35 cents per pound.

‡ The ease in working is due to the presence of a large amount of "gum." The thinness of the leaf increases its value as a wrapper.

extent the increased price will affect the use of imported tobacco, and especially of Sumatra tobacco; for it is this tobacco that is directly aimed at by the excessive rate now levied on wrappers. The rate is as high as any one could ask, being \$2 per pound, or four times the price of any but the most exceptional qualities of domestic wrappers; and the result will supply an interesting test of the efficacy of a very high protective duty in keeping out the foreign article.

Thus, briefly, we have traced some phases of the growth of tobacco, with the purpose chiefly of showing how little connection there is or can be between an internal tax on cigars or smoking tobacco and the net return from a crop of leaf. A good crop is plainly the result of conditions over which the tax has no influence or control. If, however, as some contend, the tax on the manufactured article weighs oppressively on the farmer, the tax which causes the trouble must be that levied by foreign governments on the half of our crop which is exported. In every important European country the rate on manufactured tobacco is at least twelve times greater than that levied in the United States,* and must be proportionately harmful if tobacco is not able to endure taxation. But, if there is any one point in taxation on which the experience of modern nations is agreed, that point is the fitness of tobacco to be taxed, and to be taxed at a high rate, if there be need. As an object of taxation, it is obviously a stable source of revenue, and the surest in times of great necessity. It has met high taxation without apparent injury to the growers or to the manufacturers; while, so far as the consumers are concerned, its use in steadily increasing quantities indicates that the burden is easily borne.

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*The present rate is 8 cents, as the new rate (6 cents) does not go into effect until May 1, 1891. For 1886 Great Britain derived a revenue of £9,000,000 from an estimated use of 51 million pounds, being at the rate of over 90 cents per pound. The rate in England is the lowest, I believe, in Europe.